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现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

CONTINUING CONNECTED TRANSACTION FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI

The Board of Directors announces that on June 8, 2012, Modern Farm, a non-wholly owned subsidiary of the Company, has entered into the Framework Supply Agreement with Qiushi in relation to the supply of Forage Grass to the Buyer Group.

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng, the child of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi. As the transactions contemplated under the Framework Supply Agreement are on normal commercial terms and the applicable percentage ratios (other than the profit ratio) as defined in Chapter 14 of the Listing Rules calculated against the Cap for the Framework Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Framework Supply Agreement constituted a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules, which is exempt from the independent shareholders' approval requirements but subject to the reporting, annual review and announcements requirements.

I. INTRODUCTION

The Board of Directors announces that on June 8, 2012, Modern Farm, a non-wholly owned subsidiary of the Company, has entered into the Framework Supply Agreement with Qiushi, a connected person, in relation to the supply of Forage Grass to the Buyer Group.

II. DETAILS OF THE CONTINUING CONNECTED TRANSACTION

The Framework Supply Agreement is legally binding and its principal terms are described below:

Date : June 8, 2012

Parties (i) Modern Farm as the Buyer; and
(ii) Qiushi as the Seller.

Duration : For a term commencing from June 8, 2012 to November 30, 2012.

Nature of Transaction : Sales and supply of Forage Grass by the Seller Group to the Buyer Group.

Cap : In an aggregate amount of RMB50,000,000 for the term commencing from June 8, 2012 to November 30, 2012.

The Cap is in respect of the transaction amount for the term commencing from June 8, 2012 to November 30, 2012. The Cap was estimated based on (i) the expansion plan of the Seller Group; (ii) the market price of Forage Grass of the corresponding quality level which meets the requirements of the Buyer; and (iii) the forecast by the Parties as to price of Forage Grass for the term of the Framework Supply Agreement.

Principal Terms of the Agreement : The principal terms of the Framework Supply Agreement are set out below:

(i) The Buyer and the Seller shall confirm the Estimated Purchase Volume within 7 days upon signing of the Framework Supply Agreement. The Estimated Purchase Volume is estimated based on the estimated production capacity of the Supplying Pastures;

- (ii) In the event that the Supplying Pastures' actual production volume is below the estimated production capacity, the Seller Group shall use its best endeavors to provide each of the relevant dairy farms of the Buyer Group with the Estimated Purchase Volume; in the event that the Seller Group contemplates that they are not able to fulfill the Estimated Purchase Volume of any of the relevant dairy farms of the Buyer Group, the Seller shall notify the Buyer immediately. In the event that that the Supplying Pastures' actual production volume is above the Estimated Purchase Volume, the Seller should inform the Buyer as soon as possible, and in such case the Buyer is entitled to increase the Estimated Purchase Volume;
- (iii) The Buyer agrees to purchase the Estimated Purchase Volume of Forage Grass that meets the quality requirements of the Buyer and which is cultivated by the Supplying Pastures and delivered to the relevant farms of the Buyer Group. The Seller agrees to deliver and sell the Estimated Purchase Volume of Forage Grass, which meets the quality requirements of the Buyer, to the respective dairy farms of the Buyer Group;
- (iv) In the event that an Independent Third Party offers more favorable terms to the Seller Group, the Seller Group shall have the right to sell to that Independent Third Party such volume of Forage Grass not exceeding 30% of each of the Supplying Pastures' monthly production volume, provided that the Seller informs the Buyer in writing with 15 days upon the signing of the Framework Supply Agreement. In the event that the Seller Group enters into such arrangement, written or non-written, with an Independent Third Party, the Buyer Group shall thereafter owe no obligation to the Seller Group to purchase such percentage of its total production volume of Forage Grass which equals to the percentage of the total sales volume of Forage Grass agreed to be sold to such Independent Third Party. The purchase obligation of the Buyer, upon such adjustment, will not exceed the Estimated Purchase Volume; and

- (v) For the Seller Group to sell Forage Grass to any Independent Third Party which operates any dairy farms located within 200 kms of dairy farms operated by the Buyer Group, the unit price of Forage Grass offered by such Independent Third Party shall not be lower than the sum of the base price and the adjusted price offered by the Buyer Group, without taking into account the discount of 10%.

Pricing

- : (i) The unit price of Forage Grass = (base price + adjusted price)x 90%;
- (ii) The base price refers to the average quoted price received by the Buyer Group from third party suppliers (whether local or overseas) for Forage Grass that meets the minimum quality standard. Unless otherwise agreed by both parties, the base price is adjusted once every three months;
- (iii) The adjusted price is based on the upward adjustment to the unit price of Forage Grass according to the water content of Forage Grass and RFV index;
- (iv) The sum of the base price and the adjusted price shall not be lower than the average price paid by the Buyer Group to third party suppliers (whether local or overseas) for the same type of Forage Grass under the same quality standard but not higher than the import price of the same type of Forage Grass under the same quality standard.

Payment terms : The payment terms under the Framework Supply Agreement shall be 30 days.

Conditions for termination of agreement

- : (i) the aim of the Framework Supply Agreement cannot be achieved for reasons of force majeure;
- (ii) either party commits a material breach of the Framework Supply Agreement and fails to take remedial measures within a reasonable period (such period shall not be less than 30 days), or despite remedial measures being taken, such breach has already caused material losses to the other party and such other party demands termination of this agreement;

(iii) either party of the Framework Supply Agreement is liquidated or is unable to perform the obligations under this agreement for reasons of material deterioration of operating conditions and such material deterioration has continued for more than 30 days; and

(iv) the Buyer and the Seller agree in writing.

Applicable laws : The laws of the People's Republic of China.

III. REASONS FOR ENTERING INTO THE FRAMEWORK SUPPLY AGREEMENT

The Company needs a large amount of high quality Forages Grass, which acts as a key source of nutrition for the dairy cows and directly affects the quality of milk and the yield of milk production. By entering into the Framework Supply Agreement, the Group will be able to secure high quality Forage Grass from Qiushi. In addition, the price of the Forage Grass provided by Qiushi includes a discount of 10% on the sum of the base price and adjusted price, which makes it cheaper than the same type of Forage Grass of corresponding quality provided by other suppliers. Moreover, Qiushi's pastures are located in close proximity to the dairy farms of the Group which renders it more convenient for the Group to monitor the planting, transportation and quality of the Forage Grass. The Directors therefore consider that, by procuring Forage Grass from Qiushi, the Group will be able to lower the costs of the Company.

The Directors, including the independent non-executive Directors, believe that the terms of the Framework Supply Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Framework Supply Agreement has been approved by the Board as well as a committee consisting of the independent non-executive Directors.

IV. INFORMATION ON THE PARTIES

(a) The Company

The Company is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association.

(b) Modern Farm

Modern Farm is an indirect non-wholly owned subsidiary of the Company and is an investment holding company of its subsidiaries which are principally engaged in operating dairy farms and production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns approximately 97.87% of the equity interests in Modern Farm.

(c) Qiushi

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of forage grass in the PRC. As at the date of this announcement, Modern Farm directly owns 18% of the equity interests in Qiushi. Each of Ms. Deng and Mr. Qi owns 63.33% and 13.33% of the equity interests in Qiushi, respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than disclosed in this announcement, the ultimate beneficial owners of Qiushi are third parties independent of the Company and its connected persons.

V. IMPLICATIONS UNDER THE LISTING RULES

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng, the child of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi. As the transactions contemplated under the Framework Supply Agreement are on normal commercial terms and the applicable percentage ratios (other than the profit ratio) as defined in Chapter 14 of the Listing Rules calculated against the Cap for the Framework Supply Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Framework Supply Agreement constituted a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules, which is exempt from the independent shareholders' approval requirements but subject to the reporting, annual review and announcements requirements.

Mr. Deng Jiuqiang and Ms. Gao Lina are interested in the Framework Supply Agreement and they therefore abstained from voting on the board resolution of the Company in approving the transaction. Save as disclosed, none of the Directors had a material interest in the Framework Supply Agreement and none of them were therefore required to abstain from voting on the board resolutions of the Company in respect of the transaction.

VI. DEFINITIONS

In this announcement, the following expressions have the following meanings, unless the context requires otherwise:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Buyer”	Modern Farm
“Buyer Group”	the Buyer and its subsidiaries
“Cap”	the maximum aggregate transaction amount of the Framework Supply Agreement for the term commencing from June 8, 2012 to November 30, 2012
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and the Hong Kong Special Administrative Region)
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the directors of the Company
“Estimated Purchase Volume”	the estimated purchase volume of the Forage Grass to be purchased by each of the relevant dairy farm of the Buyer Group from the Seller Group each month
“Forage Grass”	alfafa and oat grass
“Framework Supply Agreement”	the Framework Supply Agreement dated June 8, 2012 entered into between the Buyer and the Seller in relation to the sale and purchase of Forage Grass
“Group”	the Company and its subsidiaries
“Independent Third Party”	a company which is not a member of the Buyer Group

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Modern Farm”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.), a non-wholly owned subsidiary of the Company
“Mr. Qi”	Ms. Qi Xiaohang, the son of Ms. Gao Lina, an executive Director, Deputy Chairman and the Chief Executive Officer of the Company
“Ms. Deng”	Ms. Deng Yuan, the daughter of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company
“Parties”	the Buyer and the Seller
“Qiushi”	秋實草業有限公司(Qiushi Grass Industry Co. Ltd.), a limited liability company established in the PRC in September 2011 and is 18% owned by Modern Farm
“Seller”	Qiushi
“Seller Group”	Qiushi and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplying Pastures”	the pastures of the specified Seller Group under the Framework Supply Agreement, which are located in Bengbu, Saibei and Feidong

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
DENG Jiuqiang
Chairman

Hong Kong, June 8, 2012

As of the date of this announcement, the executive Directors are Mr. DENG Jiuqiang, Ms. GAO Lina, Mr. HAN Chunlin, the non-executive Directors are Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. LEI Yongsheng, the independent non-executive Directors are Prof. LI Shengli, Prof. GUO Lianheng and Mr. LEE Kong Wai Conway.